UNITED
NATIONS

TD

United Nations
Conference
on Trade and
Development

Distr.
LIMITED

TD/B/COM.3/L.1
23 January 1997

Original : ENGLISH

TRADE AND DEVELOPMENT BOARD
Commission on Enterprise, Business
Facilitation and Development
First session
Geneva, 20 January 1997
Agenda item 7

DRAFT REPORT OF THE COMMISSION ON ENTERPRISE, BUSINESS FACILITATION AND DEVELOPMENT ON ITS FIRST SESSION (20-24 January 1997)

Rapporteur : Ms. H. Booth di Giovanni (United Kingdom of Great Britain and Northern Ireland)

INTRODUCTION AND AGENDA ITEM 3

Speakers :

Secretary-General of UNCTAD
Director, ITED
Morocco (for African Group)
Jamaica (for Latin American and Caribbean Group)
Philippines (for Asian Group and China)
Netherlands (for European Union)
Thailand
Turkey
Cuba
Egypt
Russian Federation
Poland
Hungary
IMF
ITC
Bulgaria

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments to statements of individual delegations - to be submitted in English or French - should be communicated by **Friday, 31 January 1997 at the latest** to:

The UNCTAD Editorial Section
Room E.8106
Fax No. 907 0056
Tel. No. 907 5656/5655

GE.97-50117

INTRODUCTION

1. The first session of the Commission on Enterprise, Business Facilitation and Development was held at the Palais des Nations,Geneva, from 20 to 24 January 1996. In the course of the session, the Commission held ... plenary meetings (1st to ... meetings) and ... informal meetings.

Opening statement

2. The **Secretary-General of UNCTAD** said that the Commission's work must be seen against the background of the central role of enterprise development in the development process in an increasingly private-sector-driven global economy. The pragmatic approach taken by UNCTAD to enterprise development had several distinctive features. One was that firms were not envisaged as isolated actors but as elements of an overall system involving markets and government as well. The respective role of each might vary from one country to another and over time in any particular country. In such a context, one should examine in each case the conditions which would allow firms, markets and the Government to contribute best to economic activities.

3. Another feature was the holistic approach to enterprise development. There was a need for a "systems" approach to enterprise development which addressed the multiplicity and interaction of factors that underpinned the growth and competitiveness of enterprises at both the domestic and the international levels. Competition among enterprises increasingly involved competition among national systems composed of sound policies, support services and institutional back-up, innovation, inter-firm cooperation and government-business relations. Accordingly, he stressed the need for a coherent policy environment which linked macro and sectoral policies, including the timing and sequencing of liberalization policies, with firm-level efforts to expand supply capacity and to attain and maintain competitiveness. Thus, the State might be seen as a catalyst and facilitator in creating effective institutions, an enabling environment and an enterprise culture conducive to entrepreneurship, innovation and inter-firm cooperation.

4. Concerning item 4 of the agenda, he stressed that, in the present context of liberalization and globalization, the elimination of the barriers created by inadequate trade-supporting services was critical for the very survival of many of the weaker players in the international economy. For traders in developing countries and SMEs, improved trade efficiency was

vital. In this connection, UNCTAD had been playing a leading analytical and operational role in fields such as trade facilitation, customs automation and transport modernization.

5. UNCTAD VIII had endorsed a consolidated approach in the Trade Efficiency Programme. The analytical and policy component of this programme had allowed the identification and formulation of over 500 practical measures which had been attached to the 1994 Columbus Declaration on Trade Efficiency and which, if implemented, would significantly reduce the cost of international trade transactions and enhance the participation of smaller participants in international trade. UNCTAD IX had infused new vigour into trade efficiency, as reflected in the consolidation of its "traditional" activities with work in the sectors of transport, finance and insurance. He expected that the work of the Commission would contribute significantly to the implementation of trade efficiency measures, thus leading to a real, measurable improvement in the conditions under which SMEs and enterprises from developing countries competed in international trade.

6. The approach adopted by UNCTAD with regard to trade efficiency was based on the assumption that the information revolution, which was reshaping the way value was created and distributed, widened the accessibility of strategic technologies and allowed dramatic productivity improvements, even in capital- and technology-scarce environments. However, decision-makers in the public sectors of developing countries and countries in transition had to be made aware of the new possibilities. In the course of the session, the secretariat would present some of the latest developments in the field of trade-supporting services. Putting these new solutions into practice would require the launching and support of reform processes in developing countries.

7. He expected that the Commission and the expert meeting convened by it would allow the interaction of Governments, the private sector, NGOs and the end-users of trade-supporting services and thus contribute to the creation of momentum for reform and help mobilize key actors in the public and private sectors.

Chapter I

ENTERPRISE: ISSUES RELATING TO AN ENTERPRISE DEVELOPMENT STRATEGY

(Agenda item 3)

8. For its consideration of this item, the Commission had before it the following documentation:

"The changing nature of enterprises and competition and the implications for the formulation of an enterprise development strategy: issues paper by the UNCTAD secretariat" (TD/B/COM.3/2).

9. To further inform its consideration of this item, the Commission heard panels of experts on the following topics: */

"Country experiences in enterprise development";

"Building innovative SMEs in competitive markets - the experience of EMPRETEC".

10. The **Director of the Division on Investment, Technology and Enterprise** Development, introducing the item, said that document TD/B/COM.3/2 sketched out a proposal for a three-year work programme aimed at identifying diagnostic tools and guidelines to assist countries in analysing the various interrelated elements that might help formulate national enterprise development strategies. The process would also involve the systematic analysis of 'best practices', including through exchanges of experiences. While the results were to be synthesized in the final year of the work of Commission, it was expected that a number of intermediate products would be produced in the interval.

11. The document analysed the new dynamics of enterprise development and competition, stressing the importance of technological capability building and innovation in sustaining competitiveness and emphasizing the diversity among firms and national systems.

12. With regard to the idea of an enterprise development strategy, strategizing meant developing a vision of the future, and the possibility for

---

*/ For a list of the panellists, see annex ... .

building commitment would be enhanced by strategies designed to set forth a series of objectives and to prioritize amongst them in order to provide guidance to policy-makers. The best strategies explicitly recognized the contingent nature of strategic thinking and would involve an iterative process requiring continuous dialogue amongst the principal actors in order to adjust strategies to changing internal and external conditions. With regard to the competitiveness of enterprises, it was now commonplace to hear that a firm must learn to learn in order to adapt itself to the changing competitive environment. That could also be applied to the State.

13. Two elements of an enterprise development strategy could be emphasized. Firstly, sustaining the competitiveness of firms involved enhancing their productivity and innovativeness, as well as strengthening the supporting institutions, physical infrastructure, linkages to suppliers and clients, universities, research institutions, productivity centres and a host of other actors. This was sometimes referred to as a national system of innovation, which was all the more important for small and medium-sized enterprises. Second, the holistic and interactive nature of the enterprise development process must be recognized, along with the importance of policy coherence at macro and micro levels, and in the three-year work programme of UNCTAD on enterprise development strategy, such a holistic perspective needed to be applied in dealing with any specific element in an enterprise development strategy.

14. In its work on enterprise development strategy, UNCTAD was seeking closer cooperation with other United Nations bodies, notably with UNIDO, ITC, ILO and the United Nations regional commissions. An UNCTAD/ECE inter-secretariat task force on enterprise-related issues in transition economies had just been created.

15. The spokesman for the **African Group** (Morocco) said that the forces of globalization and liberalization had drastically changed the framework for international competition. Rapid technological progress had revolutionized relations among firms and between them and other actors in the development process. Developing countries, particularly in Africa, were faced with the risk of being marginalized in international trade. At a time when enterprises in other countries were concerned about increasing their productivity and competitiveness, most African countries were still trying to mobilize, both locally and abroad, resources for acquiring production and export capability. Only if backed by international support could they succeed.

16. While document TD/B/COM.3/2 was of high analytical quality and contained a wealth of information, there was a one-sided emphasis on national factors that hindered enterprise development. While such national factors were undoubtedly relevant, no complete picture of enterprise development could be drawn if international factors were ignored. Market access, for

instance, was an important factor. The reduction of trade barriers, technical barriers and other forms of protectionism would enhance competition and contribute to enterprise development.

17. International cooperation was also a decisive factor in enterprise development and should address the development and transfer of technology, as well as provision of financial assistance for the upgrading of enterprises affected by liberalization and adjustment programmes. Furthermore, provisions to promote SMEs should be made under SAPs.

18. As underlined at UNCTAD IX, regional and interregional cooperation to increase enterprises' and countries' competitiveness must play an important role in enterprise development, and he called upon international institutions and Governments of developed countries to assist in such endeavours.

19. Finally, he emphasized the importance in Africa of the informal sector, which constituted a means of survival for a large part of the urban population but which, in its existing form, deprived of access to finance, information and modern technology, was not sustainable. International cooperation in general and UNCTAD's activities in particular could make a major contribution to assisting enterprises from the informal sector in graduating to the formal sector.

20. The spokesperson for the **Latin American and Caribbean Group** (Jamaica) said that the rapid changes taking place in business practices would put many enterprises, particularly in developing countries, at a disadvantage. In that connection, key issues identified in document TD/B/COM.3/2, such as an enabling macroeconomic environment for enterprise development, required further elaboration. There was also a need to improve the international environment, in particular regarding the transfer of technology and market access, for the development, growth and expansion of enterprises. She was confident that the panellists would contribute to the deliberations of the Commission, and the results of previous UNCTAD intergovernmental bodies, including those of the Ad Hoc Working Group on the Role of Enterprises in Development, should be taken into account.

21. Referring to document TD/B/COM.3/3 on agenda item 4, she noted that this aspect of UNCTAD's work was particularly practical and relevant. Technical assistance was an essential component of the work, and the inter-institutional cooperation referred to was commendable and needed to be encouraged.

22. Finally, she stressed the need to convene expert group meetings which would contribute to the further work of the Commission.

23. The spokesman for the **Asian Group and China** (Philippines) said that while globalization and liberalization affected all enterprises, it was SMEs that were most vulnerable to their possible negative effects. Enterprises had yet to grasp the opportunities that the Uruguay Round might create, and many enterprises, especially SMEs, had already been eliminated by foreign competition. If UNCTAD was to prevent the further marginalization of developing countries, especially the least developed ones, through support for enterprise development, member countries must act with determination. However, conditions varied from country to country and from enterprise to enterprise, and it might be futile to search for a singular, definitive strategy.

24. It was not only at the level of firms that there must be an enterprise development strategy. The State continued to have an important role to play in the development of enterprises, especially by providing an enabling policy environment and necessary infrastructures. Opening or maintaining a dialogue between the Government and enterprises was an important measure favouring the growth of enterprises. He stressed the need also for efforts at the international level to formulate enterprise development strategies, and UNCTAD could be at the forefront of such efforts, in terms of both its formulation and implementation. In that connection, the shortage of finance, both start-up capital and long-term finance, was a major problem for SMEs. It must be asked how foreign investment could help solve this problem and whether there were windows in international financial institutions to help enterprise development in developing countries.

25. Finally, he underlined that there was a need to strengthen UNCTAD's enterprise-related training programmes in order to address the scarcity of the technical and managerial skills needed in the new trading environment. Promoting innovation must be an important component of such training programmes.

26. The representative of the **Netherlands**, speaking on behalf of the **European Union**, emphasized the interest of the European Union in the issue of enterprise development and assured the Commission of the European Union's preparedness to work constructively towards a successful outcome of the session.

27. The representative of **Thailand** said that his Government had created a competitive environment by reducing protection of domestic industries, relaxing import controls and bringing down the levels of customs duties. Fiscal incentives would be used to promote the private sector's activities in research and development. In addition, the Ministry of Industry was focusing on the relocation of industries to rural areas, investment in SMEs and

cottage industries with economic potential with a view to encouraging their participation in the international economy, and promoting and improving linkages between SMEs and main industries.

28. The role of the Government in the development of SMEs was not only supply-oriented, i.e. relating to credit provision, training, and R&D, but was also focused on stimulating demand through the promotion of subcontracting activities. The Joint Public-Private Sector Consultative Committee (JPPCC) was the mechanism for Government-private sector relations. The Government-private sector cooperation strategy encompassed support for private sector research and development, promoted development of personnel capacity in applying technology in the industrial sector, and arranged services to facilitate the application of technology.

29. In December 1996, UNCTAD had initiated a workshop-cum-study tour for 25 business persons from African LDCs to Thailand. They had brought with them 100 trade and investment proposals, negotiated commercial deals and identified trade prospects as well as joint venture investment projects. Such interaction of business people served to stimulate investment networking at the national and enterprise levels, and he hoped that UNCTAD would initiate more such activities.

30. The sharing of country experiences would contribute towards identifying 'best practices' in enterprise development which might be taken into consideration by Governments in the formulation and implementation of enterprise development strategies. His Government would continue to cooperate with UNCTAD in the area of enterprise development.

31. The representative of **Turkey** said that enterprises, especially small and medium-sized ones, should be supported, as they played a primary role in employment creation, manufacturing production and export development. She informed the Commission of support and incentive measures for SMEs recently introduced by her Government. The new incentives included the provision of credits and finance to eligible SMEs and their exemption from VAT, customs taxes and stamp duties.

32. The representative of **Cuba** said that his delegation shared the general views expressed in document TD/B/COM.3/2. Enterprise development was important in the development process but also depended on factors other than a country's level of economic development, such as foreign investment, external resources and access to technology and international markets.

33. His country attached great importance to the SME concept, but the latter should not be associated solely with private ownership; it could also involve other forms of enterprise organization such as cooperatives, mixed private-public enterprises and public enterprises. The existence of adequate infrastructures, including transport, banking, insurance, telecommunications and trade information, was crucial for enterprise development in developing countries.

34. Globalization and liberalization could improve the growth and development of developing countries, provided that protectionist tendencies were controlled and the exclusion of developing countries from international trade and finance was avoided. Globalization should not lead to interference in internal affairs, nor should it entail the adoption of coercive measures or the imposition of models of economic development that could adversely affect economic and social conditions in developing countries. In conclusion, he expressed his confidence that the Commission could play a major role in implementing the objectives agreed upon at UNCTAD IX.

35. The representative of **Egypt** said that, to promote job creation with donor funding, his country had created a Social Fund for Development (SFD), one of whose core objectives was enterprise development. In the first phase, programmes had been geared towards the poor, while in the second phase the target groups had been enlarged. Criteria for qualifying for assistance included the existence of an economically viable product, the use of environmentally sound technologies, and the participation of women in the projects. The executing agencies in the programme were national business organizations and other NGOs, semi-governmental associations and the Government itself. Support was given to financial institutions for both credit risk and financial management, and importance was attached to implementing the programme in rural areas and to promoting local employment opportunities. The SFD also provided technical support, training, credit and institutional support for NGOs and business associations. Finally, the Government also provided tax incentives for enterprise development, and the media were used to build up an enterprise culture.

36. The representative of the **Russian Federation** underlined the importance of UNCTAD's work on enterprise development strategy. This issue, along with the question of international competitiveness and other aspects of enterprise development, was of direct relevance to the development of all countries, particularly in the context of the globalization and liberalization of international economic relations. UNCTAD could and should play an important role in the promotion of international consensus on a wide range of issues pertaining to the development of enterprises, particularly SMEs, and in the provision of technical assistance. He also welcomed UNCTAD's analytical and practical work aimed at assisting developing countries and economies in transition in establishing infrastructure services in such areas as customs,

transportation, banking, insurance, telecommunications and business information. Such work should be continued.

37. The representative of **Poland** said that the private sector in general and SMEs in particular played a significant role in Poland's economic development and were primarily responsible for the transformation and satisfactory performance of the Polish economy. The private sector had created new jobs, and it currently employed about 60 per cent of the labour force. SMEs had contributed to the development of markets and competition and of activities that were complementary to those of large industrial enterprises and the public sector.

38. He stressed that it was the role of the Government to create conducive conditions for enterprises to achieve and maintain high levels of productivity. Government should also facilitate research and development and encourage innovation. With regard to making SMEs more competitive, his Government had undertaken several support measures for SMEs, including advisory services for exporting SMEs. Other support policies would address legal and fiscal constraints and included the establishment of the Polish Foundation for SME Promotion and Development. Concerning financial support measures, a loan guarantee fund had been set up in the National Economy Bank which provided credit guarantees for small and medium-sized enterprises. In conclusion, he welcomed the first session of the Commission as a good opportunity to exchange experiences with other countries.

39. The representative of **Hungary** welcomed the outline of the work programme as contained in document TD/B/COM.3/2. However, he felt deep concern with regard to two aspects of the document. Firstly, the work programme lacked a well designed strategy for UNCTAD's cooperation with ECE, ITC and UNIDO. He hoped that, for the next session of the Commission, an outline of the distribution of labour among these organisations in the field of enterprise development could be developed. He welcomed the recently established UNCTAD/ECE task force.

40. Secondly, he expressed his discontent with certain paragraphs of document TD/B/COM.3/2 which did not pay due attention to the specific problems of enterprise development in different economies in transition. Some of the latter had already made considerable progress in creating the legal and institutional framework required for a market economy and had become members of the Organisation for Economic Cooperation and Development. In other transition economies, major tasks of economic transformation still

lay ahead. He therefore urged the secretariat to reconsider the text of the relevant paragraphs of the document.

41. The representative of the **International Monetary Fund** (IMF) said that he agreed with much of document TD/B/COM.3/2 but was less enthusiastic on several points. He strongly endorsed the call in the document for a coherent policy environment which linked macro and sectoral policies with firm-level efforts to attain and maintain competitiveness and which was conductive to the development of an "innovation system". He also recognized the primordial importance of macroeconomic policies and welcomed the focus on legal, regulatory and tax policies. However, he disagreed with the assessment of structural adjustment programmes (SAPs) and expressed reservations with regard to the assertion that SAPs were universal and uniform as far as enterprise development was concerned. With regard to picking winners, i.e. sectors to be protected or to be provided with incentives, while avoiding losers, Governments might face difficulties in this respect in the new liberalized trading environment.

42. Concerning the speed and content of economic reforms, the issue was not the need to choose between shock therapy or gradualism, as such a dichotomy was not particularly helpful. The real issue related to what needed to be done, how and within what time frame. An important consideration in this regard was the amount of finance available to assist the reform process. He argued for a quicker rather than a slower pace of reform, since the sooner the macroeconomic frame was stabilized, the sooner investors, savers and consumers could benefit from the reform.

43. The representative of the **International Trade Centre** (ITC), informing the meeting of the work of his organization in the area of enterprise development, stressed the need to avoid duplication and to seek complementarities and synergies in the work of UNCTAD and ITC. ITC activities at the firm and institutional level constituted the logical downstream activities in relation to UNCTAD's upstream work, the latter covering policy-related issues, privatization and reform, public-private sector dialogue and enterprise development strategies. ITC activities were designed to translate policy and strategy developments into actual business opportunities and to enable the exporting community to derive full benefits from these opportunities. This complementarity provided considerable scope for cooperation between the two organizations, e.g. in the area of strengthening trade points and TRAINFORTRADE operations. At the same time, however, the EMPRETEC programme dealt with some issues covered by ITC activities.

44. The representative of **Bulgaria** said that his delegation supported the main ideas and the constructive proposals contained in document TD/B/COM.3.2. Privatization and private sector development, particularly enterprise

development, were among the main pillars of the economic policy of developing countries and countries in transition, and in that connection he endorsed the analysis and proposals concerning transition countries in document TD/B/COM.3/2. His delegation recognized the need for and importance of analytical work and policy formulation in the field of enterprise development, particularly the development of SMEs. In this context, he also supported the proposal to convene an expert group meeting on enterprise development policy.

Chapter III

ORGANIZATIONAL MATTERS

A. Opening of the session

45. The first session of the Commission on Enterprise, Business Facilitation and Development was opened on 20 January 1997 by Mr. Rubens Ricupero, Secretary-General of UNCTAD.

B. Election of officers

(Agenda item 1)

46. At its 1st plenary meeting, on 20 January 1997, the Commission elected its Bureau as follows:

Chairperson:	Mr. Manuel Dengo	(Costa Rica)
Vice-Chairmen:	Mr. Ranjana N. Abeysekera	(Sri Lanka)
	Ms. Violeta Fonseca de Sanabria	(Venezuela)
	Mr. Bashir Musa	(Nigeria)
	Mr. Corrado Milesi Ferretti	(Italy)
	Mr. Petko Baev	(Bulgaria)
Rapporteur:	Ms. Heather Booth di Giovanni	(United Kingdom of Great Britain and Northern Ireland)

C. Adoption of the agenda and organization of work

(Agenda item 2)

47. At the same meeting, the Commission adopted the provisional agenda circulated in document TD/B/COM.3/1. Accordingly, the agenda for the first session was as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Enterprise: issues relating to an enterprise development strategy

4. Services infrastructure for development and trade efficiency assessment

5. Provisional agenda for the second session of the Commission and any necessary preparation through expert meetings

6. Other business

7. Adoption of the report of the Commission to the Trade and Development Board.

D. Provisional agenda for the second session of the Commission and any necessary preparation through expert meetings

(Agenda item 5)

[To be completed]

E. Other business

(Agenda item 6)

[To be completed as appropriate]

F. Adoption of the report of the Commission to the Trade and Development Board

(Agenda item 7)

[To be completed]

[A Chairman's summary covering the main points of the informal discussions will be annexed to the report.]